Annual Report 1977 · H. Paulin & Co. Limited

DIRECTORS

*Dr. Irving Betcherman, Toronto	Director, The Ingot Metal Co. Limited
Arnold B. Irwin, Toronto	President, Irwin Toy Limited
Ayton G. Keyes, Ottawa	President, Keyes Investments Limited
*Arthur Paulin, Toronto	H. Paulin & Co. Limited
Stanley F. Paulin, Toronto	H. Paulin & Co. Limited
*Vincent P. Reid, Q.C., Toronto	Vice-President, Walwyn Stodgell Cochran Murray Limited
Harvey G. Kotler, Toronto	Partner, Robins and Partners

*Member of the Audit Committee

OFFICERS

Arthur Paulin	President
Stanley F. Paulin	Vice-President, Secretary
Frank Juriansz	Vice-President, Purchasing
Joyce Mair	Treasurer

HEAD OFFICE	55 Milne Ave., Scarborough, Ont.
AUDITORS	Touche Ross & Co., Toronto, Ont.
LEGAL COUNSEL	Robins and Partners, Toronto, Ont.
TRANSFER AGENT AND REGISTRAR	Canada Trust Company, Toronto, Vancouver, Edmonton and Winnipeg
SHARES LISTED	The Toronto Stock Exchange

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Annual report 1977 · H. Paulin & Co., Limited

Financial Highlights	1977	1976
Sales	$15,219,867	$14,125,484
Net Income	$ 626,527	$ 737,437
*Earnings per Share	59.7¢	70.2¢
Dividend Paid	$ 157,500	$ 140,317
*Dividend per Share	15.0¢	15.0¢
*Shareholder's Equity per Share	$ 7.11	$ 6.66
Working Capital	$ 6,544,401	$ 5,971,927

*Based on 1,050,000 shares outstanding

To our Shareholders

The year 1977 saw your Company reach a 58 year peak in sales at $15,220,000, an increase of nearly 8% over 1976. However, net earnings of $627,000 or 59.7¢ per share were 15% below the results of the previous year.

A number of factors contributed to this profit decline. Fastener production capacity, both domestic and world-wide exceeded total demand, resulting in extremely competitive conditions in all markets. Our costs of labour, materials, energy, transportation and supplies continued to escalate through the year. The modest selling price increases that we were able to introduce were not sufficient to maintain our traditional profit margins.

The other major factor contributing to the decline in profit was the weakness of the Canadian dollar. The advantages gained from our higher export sales were not sufficient to balance the higher costs of our imported equipment, materials and products.

There was an improvement in the Company's financial position in 1977. Working capital strengthened to $6,544,000 representing an increase of $572,000 over 1976. Our investment in capital equipment was $140,000 and was primarily for replacement and rebuilding. No major equipment expansion is planned in the current year but the refitting program will continue.

Dividends at the annual rate of 15¢ per Class "A" share, amounting to $157,500 were paid during the year.

The consensus of current forecasts is that there will not be a significant improvement in the Canadian economy this year. As a supplier to most of the industrial sectors of that economy our fortunes are greatly influenced by its performance. However, with regard to those factors that are within our control, I can assure you that every effort is being put forward to improve our productivity and our profitability.

To our employees, our valued customers and suppliers and to our shareholders, I would like to express my appreciation for their support.

On behalf of the Board of Directors, I wish to present to you the financial statement for the year ended December 31, 1977.

Arthur Paulin

May 20, 1978

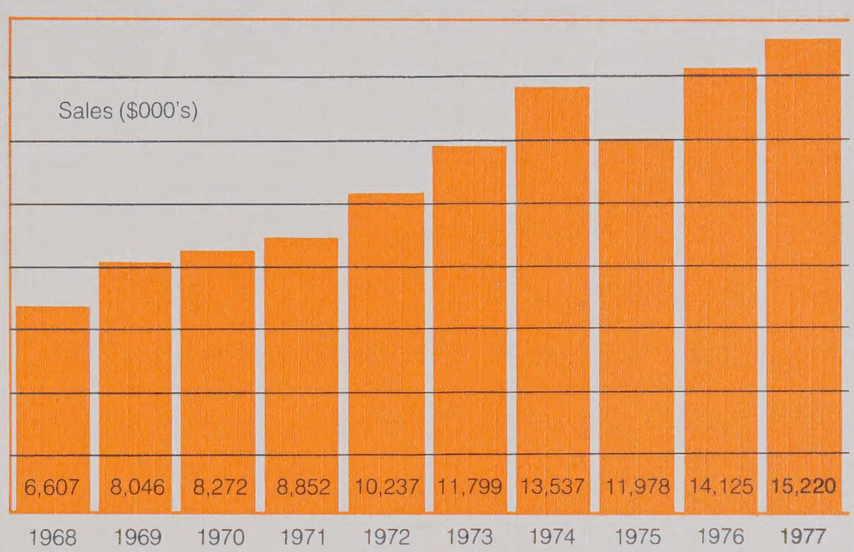
Operations:

During 1977, installation of special nut tapping equipment was accomplished allowing us to increase the output of our line of "Easy-Spot"® Resistance Weld Nuts. A number of Power Presses were also modernized and automated to meet the growing demand for this product line.

Additions to the Quality Control Department were completed to meet the increased demand for lighter weight fasteners made of higher carbon and alloy steels.

Marketing:

The increase in sales in 1977 was largely due to the higher production levels in the automotive manufacturing industries. An improvement in the construction and heavy truck markets would contribute to overall sales growth in 1978.



Automotive aftermarket

The historically strong growth of the Canadian automotive aftermarket declined in 1977, recording a sales increase of only 4%. However, the "Papco" line of merchandised automotive fasteners and replacement parts continues to be strongly supported by the major warehouse distributors and jobbers across Canada. The trend in the aftermarket is towards greater walk-in trade and this has resulted in wide acceptance of our Pic-a-Pac product line. We anticipate increased sales in our Aftermarket division in 1978 as traditional growth patterns return.

Industrial and hardware distributors

The continued weakness of the construction, mining and pulp and paper industries has slowed the growth of our industrial distributor business. Sales in our Locking Fastener Division were brisk as increased concern for product reliability created greater demand for self-locking fasteners.

Other Markets

An agreement as exclusive agent in Canada for Zinc Alloy and Nylon fasteners was entered into with Gries Reproducer Corporation of New Rochelle, New York. These new product lines are part of an on-going program of offering the most complete fastener range available from one source.

Export sales improved as the currency exchange position made our products more competitive in world markets. We look forward to uninterrupted growth in this area during 1978.

Outlook

We expect that the Company will achieve acceptable results in 1978 and look forward to more rapid growth as the economy recovers.

We still maintain our policy of being responsive to the technical and merchandising needs of the markets we serve.

paulin H. Paulin & Co., Limited and its wholly-owned subsidiary (Incorporated und

Consolidated balance sheet · December 31, 1977

ASSETS	1977	1976
Current		
Accounts receivable	$2,238,846	$2,129,373
Inventories	7,336,171	6,398,306
Sundry assets and prepaid expenses	79,249	127,175
Income taxes	14,727	—
	9,668,993	8,654,854
Plant, equipment and leasehold improvements, at cost	3,501,806	3,368,737
Less accumulated depreciation and amortization	2,113,842	1,853,679
	1,387,964	1,515,058
	$11,056,957	$10,169,912

e laws of Ontario)

with comparative figures for 1976)

LIABILITIES	1977	1976
Current		
Bank indebtedness (Note 2)	$1,980,303	$1,111,194
Accounts payable and accrued charges	1,144,289	1,222,830
Income taxes	—	348,903
	3,124,592	2,682,927
Deferred income taxes	470,815	494,462
	3,595,407	3,177,389
SHAREHOLDERS EQUITY		
Capital stock (Note 3)		
Authorized		
2,000,000 Class A convertible common shares without par value		
2,000,000 Class B convertible common shares without par value		
2,000 common shares without par value		
Issued		
1,050,000 Class A and B shares	1,016,188	1,016,188
Retained earnings	6,445,362	5,976,335
	7,461,550	6,992,523
	$11,056,957	$10,169,912

On behalf of the Board

Arthur Paulin
Director

Stanley F. Paulin
Director

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Consolidated statement of income and retained earnings

for the year ended December 31, 1977
(with comparative figures for 1976)

	1977	1976
Sales	$15,219,867	$14,125,484
Income from operations before the following charges	$ 3,955,986	$ 4,078,369
Selling, general and administrative expenses	2,573,420	2,351,827
Depreciation and amortization	266,502	274,876
Interest	125,929	107,237
	2,965,851	2,733,940
Income before provision for income taxes	990,135	1,344,429
Provision for income taxes	363,608	606,992
Net income for the year	626,527	737,437
Retained earnings at beginning of year	5,976,335	5,396,315
	6,602,862	6,133,752
Payment of tax under Section 196 (1) of the Income Tax Act	—	17,100
Dividend paid	157,500	140,317
Retained earnings at end of year	$ 6,445,362	$ 5,976,335
Earnings per share	59.7¢	70.2¢
Dividend per share	15.0¢	15.0¢

Auditors' report

The Shareholders,
H. Paulin & Co., Limited

We have examined the consolidated balance sheet of H. Paulin & Co., Limited as at December 31, 1977 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Consolidated statement of changes in financial position

for the year ended December 31, 1977
(with comparative figures for 1976)

	1977	1976
Source of funds		
From operations		
Net income for the year	$ 626,527	$ 737,437
Add (deduct) charges not requiring an outlay of funds		
Depreciation and amortization	266,502	274,876
Deferred income taxes	(23,647)	26,300
	869,382	1,038,613
Application of funds		
Acquisition of fixed assets—net	139,408	206,461
Dividend paid	157,500	140,317
Payment of tax under Section 196 (1) of the Income Tax Act	—	17,100
	296,908	363,878
Increase in working capital	572,474	674,735
Working capital at beginning of year	5,971,927	5,297,192
Working capital at end of year	$6,544,401	$5,971,927

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Chartered Accountants

Toronto, Ontario,
April 14, 1978

paulin H. Paulin & Co., Limited and its wholly-owned subsidiary

Notes to the consolidated financial statements December 31, 1977

1. Summary of significant accounting policies
   a. Consolidation
      The consolidated financial statements include the accounts of H. Paulin & Co., Limited and its wholly-owned subsidiary company.
   b. Inventories
      Inventories are valued at the lower of cost and net realizable value.
   c. Plant, equipment and leasehold improvements
      Expenditures for additions and major improvements to office fixtures, vehicles and leasehold improvements are capitalized while those for maintenance and repairs are expensed as incurred. The costs and accumulated depreciation applicable to assets sold or retired are removed from the respective accounts and gains or losses thereon are credited or charged to income.
      Provision for depreciation is computed primarily by the straight-line method based on the estimated useful lives of the related assets. Leasehold improvements are amortized by the straight-line method over the terms of the leases.
   d. Deferred income taxes
      Deferred income taxes arise primarily from timing differences between financial and income tax reporting of depreciation charges.
2. Bank indebtedness
   The Company has given a general assignment of its accounts receivable as security for its bank indebtedness.
3. Capital stock
   a. Class A and B shares are inter-convertible on a share for share basis and the rights of each class are identical. Both classes of shares rank equally as to dividends but the directors may elect to declare and pay a dividend on the Class B shares out of 1971 tax-paid undistributed surplus on hand or out of 1971 capital surplus on hand (as those expressions are defined in the Income Tax Act of Canada) provided that a cash dividend is declared and paid on the Class A shares in an amount equal to the sum of the cash dividend on the Class B shares plus the tax paid to create the tax-paid undistributed surplus. Changes in the issued share capital during the year were as follows:

	Class A	Class B	Total
Common shares outstanding at beginning of year	287,803	762,197	1,050,000
Class A shares converted to Class B shares	(500)	500	—
Common shares outstanding at end of year	287,303	762,697	1,050,000

   b. Under a proposed stock option plan, 50,000 shares (1976–50,000 shares) were reserved as at December 31, 1977; no options have been granted under this plan.
4. Income taxes
   The tax provision for the fiscal year ended December 31, 1977 has been reduced approximately $85,000 as a result of the 3% inventory allowance for taxation purposes.
5. Lease obligations
   Annual rentals payable under long-term leases which expire at various dates up to 1989 are approximately $217,000.
6. Dividend restriction
   Under the Canadian Government's Anti-Inflation Legislation program the dividends to the Company's shareholders are restricted until October 13, 1978.
7. Remuneration of directors and senior officers
   Remuneration of directors and senior officers as defined by The Business Corporations Act–Ontario of the Company for the year ended December 31, 1977 was $214,419 (1976–$196,710).

Ten year statistical summary

Years ending December 31, 1968–1977

Dollars in thousands except as indicated†	1968	1969	1970	1971	1972	1973	1974	1975	1976	**1977**
Sales	$6,607	8,046	8,272	8,852	10,237	11,799	13,537	11,978	14,125	**15,220**
Depreciation	$ 84	94	96	118	132	173	195	239	275	**267**
Income Taxes	$ 311	371	306	455	626	626	830	542	607	**364**
Net Income	$ 285	308	276	454	654	757	929	669	737	**627**
Earnings per Share*†	$ 0.27	0.29	0.26	0.43	0.62	0.72	0.885	0.637	0.702	**0.597**
Net Income % of Sales	4.3	3.8	3.3	5.1	6.4	6.4	6.9	5.6	5.2	**4.1**
Additions to Fixed Assets	$ 101	193	260	223	216	510	539	367	206	**139**
Working Capital	$1,941	2,156	2,432	2,733	3,784	4,114	4,754	5,297	5,972	**6,544**
Shareholders' Equity	$2,153	2,452	2,728	3,181	4,424	5,053	5,865	6,413	6,993	**7,462**
Return on Equity %	14.1	13.4	10.7	15.4	17.2	16.0	17.0	10.9	11.0	**8.7**

*Based on 1,050,000 shares outstanding as at December 31, 1977

Earnings per share